

Body corporate fees and charges

You may be able to claim a deduction for body corporate fees and charges you incur for your rental property.

Body corporate fees and charges may be incurred to cover the cost of day-to-day administration and maintenance or they may be applied to a special purpose fund.

Payments you make to body corporate administration funds and general purpose sinking funds are considered to be payments for the provision of services by the body corporate and you can claim a deduction for these levies at the time you incur them. However, if the body corporate requires you to make payments to a special purpose fund to pay for particular capital expenditure, these levies are not deductible. Similarly, if the body corporate levies a special contribution for major capital expenses to be paid out of the general purpose sinking fund, you will not be entitled to a deduction for this special contribution amount. This is because payments to cover the cost of capital improvements or capital repairs are not deductible – see Taxation Ruling TR 97/23. You may be able to claim a capital works deduction for the cost of capital improvements or capital repairs once the cost has been charged to either the special purpose fund or, if a special contribution has been levied, the general purpose sinking fund – see **Capital works deductions** on page 19.

A **general purpose sinking fund** is one established to cover a variety of unspecified expenses (some of which may be capital expenses) that are likely to be incurred by the body corporate in maintaining the common property (for example, painting of the common property, repairing or replacing fixtures and fittings of the common property). A **special purpose fund** is one that is established to cover a specified capital improvement to the common property which is likely to be a significant expense that cannot be covered by ongoing contributions to a general purpose sinking fund.

If the body corporate fees and charges you incur are for things like the maintenance of gardens, deductible repairs and building insurance, you cannot also claim deductions for these as part of other expenses. For example, you cannot claim a separate deduction for garden maintenance if that expense is already included in body corporate fees and charges.

Interest on loans

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan, or a portion of the interest, as a deduction. However, the property must be rented, or available for rental, in the income year for which you claim a deduction. If you start to use the property for private purposes, you cannot claim any interest expenses you incur after you start using the property for private purposes.

While the property is rented, or available for rent, you may also claim interest charged on loans taken out:

- to purchase depreciating assets
- for repairs
- for renovations.

Similarly, if you take out a loan to purchase land on which to build a rental property or to finance renovations to a property you intend to rent out, the interest on the loan will be deductible from the time you took the loan out. However, if your intention changes – for example, you decide to use the property for private purposes and you no longer intend to use it to produce rent or other income – you cannot claim the interest after your intention changes.

Banks and other lending institutions offer a range of financial products which can be used to acquire a rental property. Many of these products permit flexible repayment and redraw facilities. As a consequence, a loan might be obtained to purchase both a rental property and a private car. In cases of this type, the interest on the loan must be apportioned into deductible and non-deductible parts according to the amounts borrowed for the rental property and for private purposes. A simple example of the necessary calculation for apportionment of interest is on the next page.

If you have a loan account that has a fluctuating balance due to a variety of deposits and withdrawals and it is used for both private purposes and for rental property purposes, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan; that is, you must separate the interest that relates to the rental property from any interest that relates to the private use of the funds.

If you have difficulty calculating your deduction for interest, contact your recognised tax adviser or us.

Some rental property owners borrow money to buy a new home and then rent out their previous home. If there is an outstanding loan on the old home and the property is used to produce income, the interest outstanding on the loan, or part of the interest, will be deductible. However, an interest deduction cannot be claimed on the loan used to buy the new home because it is not used to produce income. This is the case whether or not the loan for the new home is secured against the former home.